

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

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) **Docket No. R2000-1**
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**COMMENTS
OF THE
PARCEL SHIPPERS ASSOCIATION
ON RECONSIDERATION**

Pursuant to Commission Order No. 1301, the Parcel Shippers Association (PSA) offers the following comments and views on the request of the Governors for a reconsideration of the non-machinable surcharges recommended for Intra-BMC and DBMC parcel post, and the Revenues produced by the BPM Increases. With respect to the parcel surcharge, the Governors' Decision stated: "We continue to believe that phasing in the full handling cost into the surcharge over time represents a better balance of reflecting costs and considering the impact on customers." (Governors' Decision, p. 14) The Commission's Order identifies the reduction in those parcel post surcharges as one of seven issues that the Commission will review in this Reconsideration. The Commission's Order further called upon the Postal Service "... to

provide detailed statements on each of these issues, setting out evidentiary and legal support for the outcomes deemed proper by the Governors.”

The Postal Service Memorandum responding to the Commission’s Order, filed December 20, 2000, inexplicably fails to address the issue of the reduction of certain nonmachinable parcel post surcharges, as requested by the Governors of the Postal Service.¹ Nevertheless, the Commission’s Order also states: “Other participants, having been fully informed of the rationales underlying the Decision of the Governors will then have an opportunity to provide their views.” The Parcel Shippers Association herewith files those views.

I. NONMACHINABLE SURCHARGES FOR INTRA-BMC AND DBMC PARCEL POST.

In its filing the Postal Service requested a nonmachinable surcharge of 40¢ per package for Intra-BMC and 45¢ per package for DBMC parcels, representing in each case a 35% passthrough of asserted cost differences between machinable and nonmachinable parcels in those rate categories. The Postal Service request to passthrough only 35% of the asserted cost difference was explicitly grounded in its belief that increases greater than that, at this time, would be excessive and would have a serious impact on the users of those rate categories. In its Decision, however, the Commission recommended a passthrough of 100% of the asserted cost differences, recommending surcharges of \$1.35 cents and a \$1.45 cents, more than triple what the Postal Service proposed.

¹ We must assume that this was an inadvertence, since we cannot believe that Postal Service management would deliberately ignore a request of the Postal Service Governors that the Commission reconsider the NMO surcharges, and the Commission’s request that the Postal Service address that issue in its Memorandum. Perhaps a USPS tactician was concerned that a request to reduce NMO surcharges might appear inconsistent with its plea for a larger revenue allowance.

The Commission Decision gave no weight to the impact of such large increases on the users of this service. Rather, the Commission stated that its decision to passthrough 100% of the cost differences was consistent "... with its policy of setting passthroughs at or near 100 percent where feasible...." (PRC Opinion, Vol. 1, page 489) It is true that the Commission has, with some consistency, followed a policy, at least a preference, for passing through 100 percent of costs avoided in determining an appropriate discount for work shared rate categories. However, there is no Commission policy to apply surcharges, let alone 100% surcharges, to smooth out cost differences among mail pieces within a distinct rate category, as opposed to cost differences between mail in different rate categories.

In fact, it is more the exception than the rule that the Commission, responding, in almost every case, to requests from the Postal Service, has imposed surcharges on certain types of mail pieces demonstrating more costly characteristics within a rate category. This is immediately obvious when one considers the differentiated costs for billions of pieces of mail contained within a rate category where there is no recognition of those cost differences through the imposition of a surcharge. Rather, it is rare when that has been done. And, when it has been done, there has been no demonstrated PRC policy to impose a surcharge, equal to 100 percent of the cost difference, particularly when it is initially proposed. For example, while PSA contested the reliability of the Postal Service's asserted cost differences between Standard (A) parcels and Standard (A) flats, mail pieces within a single rate category, the Commission did not impose a Standard (A) rate surcharge, in the first proceeding where this issue was determined, that reflected 100% of the cost differences between parcels and flats.

What has been a more common practice, both for the Postal Service in its proposals, and the Commission in its recommendations, is not to passthrough 100% of cost differences or cost savings the first time a discount or a surcharge is proposed. A principal reason for this is the uncertainty of the cost estimates underlying the discounts and the surcharges. It has been more common for the Postal Service and the Commission to phase in both surcharges and discounts. For example, in the current proceeding DDU and DSCF parcel discounts are still not 100% of cost savings because both the Postal Service and the Commission believe that the discounts are too new, even though initially recommended in Docket No. R97-1, and that more experience is needed to demonstrate that indeed the cost saving estimates are reliable. "The Commission agrees ... reliable cost data are not yet available." (Opinion at 482). The Commission cited approvingly USPS testimony that "... the DDU and DSCF categories are new and the uncertainty of costs requires conservatism...." (Id.) As cost estimates improve over time the Postal Service proposes to passthrough greater portions of cost differences in the form of discounts and surcharges.

The Commission's Decision further explains the imposition of the much larger surcharges because that will "...strike a reasonable balance among affected mailers...." (Id.) There is no evidence in the record to suggest that mailers who send nonmachinable parcels are different than mailers who send machinable parcels. There is no evidence that they are not one and the same mailer. Had that issue been raised during the hearing, PSA would have produced concrete evidence to demonstrate that they are one and the same mailers. Therefore, the otherwise desirable goal of affecting a balance among mailers is illusory.

A very real difficulty with the tripling of the proposed surcharges is that this result, not having in any way been envisioned by the parties to the proceeding, deprived PSA as well as other intervenors of the opportunity to address both the cost bases and the consequences of surcharges of these dimensions. Had the Postal Service proposed a 100% passthrough of the asserted cost differences, PSA would have adduced evidence that:

1. Contested the reliability of the data upon which the Postal Service measured the cost differences; and
2. The consequences to mailers of such exceptionally large increases would be quite damaging to the users and to the competitive posture of USPS.

A. Cost Basis For The Intra-BMC And DBMC NMO Surcharges.

The parties to this proceeding did not address the asserted cost differentials underlying the nonmachinable surcharges because, while the cost evidence we would argue, was unreliable, particularly given the fact that this was the first time these surcharges were proposed, because, even if the Postal Service's costs were greatly exaggerated, it was unlikely that any party could demonstrate that the surcharges as proposed were not cost-justified.

B. Impact of Surcharges.

Likewise, the parties did not feel it important to address the issue of the impact of the recommended NMO surcharges on mailers because there was no suggestion that recommended surcharges would triple those proposed. The Recommended Decision says: "No participant opposes the proposed surcharges" (Opinion at 488). If this is intended to mean that no participant opposed surcharges 300% more than proposed,

that would be disingenuous. Had PSA been given notice of the intention to recommend such surcharges, PSA would have introduced evidence of the impact of such surcharges on parcel mailers. That impact would show that the consumers would be extremely damaged by such surcharges and that, moreover, those who were able to do so would switch their business to competitors of the Postal Service, and not just their nonmachinables, but all of their parcel business. PSA's proffer of evidence would show that the Commission's recommendation would force mailers to segregate their nonmachinables from their machinables in order to use a competitor that does not impose surcharges; and would show that this would greatly complicate their production line because, in many cases, until the product is fully packaged they do not know if the package will weigh in excess of 35 pounds.

C. Competitive Impact On USPS.

PSA is sure that it was not the Commission's intention to create a competitive handicap for the Postal Service; but that is the reality, and part of the PSA case would have been to demonstrate that a competitor such as United Parcel Service would have the opportunity to seize all of the business of a particular package shipper by offering, as they do to all of their large customers, a deal where, in exchange for all of that company's business, the nonmachinables would be taken at the same rate. Although the record suggests that the surcharge would apply to only 10 million parcels, nevertheless that could result in causing several major parcel shippers to shift all of their business away from the Postal Service. Thus, while it might appear that the surcharges would generate an additional \$15 million in revenue, in fact, quite the reverse could be the result.

D. Other Justifications For The NMO Surcharges.

Apparently another basis for the Commission's decision to recommend such high nonmachinable surcharges was a belief that high surcharges would "...better serve as an incentive to mailers to mail, where practical, machinable items...." (Id.) Since all merchandise weighing over 35 pounds is deemed to be nonmachinable, we fail to understand how it would be practical for mailers to respond to the incentive to ship merchandise that weighs less. Surely the Commission did not intend that our members' customers stop buying and our members stop selling merchandise that weighs over 35 pounds.

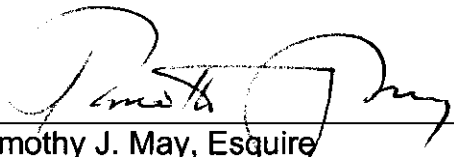
E. Conclusion

We hope that the Commission will, upon this Reconsideration, carefully weigh the fact that these nonmachinable parcels are not in a separately identifiable rate category; rather they are within two existing rate categories. Although the Commission says the average increase to such parcels is "about 17 percent" (Opinion at 488), for many of these parcels, the recommended nonmachinable surcharge would combine for an effective increase of as much as 40%. Had PSA known the Commission's intentions, we would have argued then as we do now that increases of those dimensions are, we believe, in contravention of the Commission's tacit acceptance of Postal Service constraints that no parcel rate be increased by more than 10%, and in contravention of Criterion 4 of The Act. It is noticeable that the Commission's discussion of its surcharge avoids any consideration of that Criterion.

II. BOUND PRINTED MATTER RATES.

The Governors assert that the Commission has erred in calculating the revenue consequences of the new drop ship discounts the Commission has recommended. The Governors further assert that, because of this error, rather than the recommended rates reflecting an average increase of 17.6%, in reality the average increase is only 9.8%. Further as a result of that error, the revenue projections of \$560.7 million (Appendix G) will produce revenues of only \$530.1 million, \$30.6 million less. We urge the Commission to decline to reconsider the recommended rates for Bound Printed Matter. The Commission may conclude that the USPS Memorandum is correct in describing technical errors in calculations of the revenue consequences of recommended BPM rates. However, that does not require the PRC to change its rate recommendations; nor does the USPS urge a change. (Memorandum, p. 31). It leaves that to the PRC's discretion. If USPS is correct and the rates recommended result only in a 9.8% increase in revenues, not a 17.6% increase, we say that increase is all the mailers can absorb, and urge the PRC to make no change in its BPM recommendations.

Respectfully submitted,



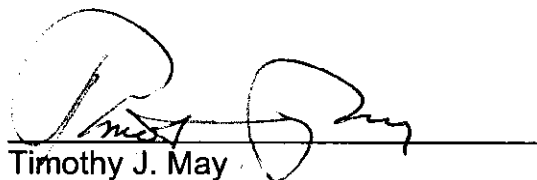
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Dated: January 9, 2001

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: January 9, 2001